

Rural County Sales/Use Tax Deferral Program



The information contained in this fact sheet is current as of the date of publication and is intended only as general information. It does not cover every aspect of this incentive. Not all possible applications of this program are discussed. This fact sheet does not alter or supersede any administrative regulations or rulings issued by the Department.

The Rural County Sales/Use Tax Deferral Program grants a deferral of sales/use tax for manufacturing, and computer-related businesses, research and development laboratories, and commercial testing facilities (excluding light and power businesses) locating in rural counties, Community Empowerment Zones (CEZ) or a county containing a CEZ.

The sales and/or use taxes on qualified construction and equipment costs for such businesses located in these specific geographic areas are **waived** when all program requirements have been met and verified. These **waiver** requirements include:

- ◆ An annual report covering each calendar year must be filed by March 31 of the following year.
- ◆ All purchases have been verified as eligible by the Department of Revenue.
- ◆ The facility must be used for qualified activities during the year in which the investment project is certified as operationally complete by the Department and the following **seven years**.
- ◆ Employment requirements have been met for a business located in a CEZ or county containing a CEZ.

Employment requirements are explained later in this fact sheet.

This program expires on July 1, 2010.

ELIGIBLE AREAS

NOTE: The list of eligible areas is revised annually (effective July 1 through June 30). Businesses making investment decisions should be aware that a specific area may not be on the list every year. Before making a final investment decision based on these programs, the business should call the Special Programs Division at (360) 570-3243 to determine eligibility of the area.

- ◆ *Rural Counties:* Counties with a population density of less than 100 persons per square mile or a county smaller than 225 square miles as determined by the Office of Financial Management, and published each year by the Department for the period of July 1 to June 30.
- ◆ *Community Empowerment Zones (CEZs):* A designated CEZ or a county containing a CEZ. CEZs have a continuing status and are not reevaluated annually or removed from the list.

Please see the designated area table included in this publication.

Designated Areas
Population Density Basis and CEZs
July 1, 2004 - June 30, 2005

County	Sales Tax Deferral 82.60
Adams	X
Asotin	X
Benton	X
Chelan	X
Clallam	X
Clark	
Columbia	X
Cowlitz	X
Douglas	X
Ferry	X
Franklin	X
Garfield	X
Grant	X
Grays Harbor	X
Island	X
Jefferson	X
King	CEZ + County
Kitsap	CEZ + County
Kittitas	X
Klickitat	X
Lewis	X
Lincoln	X
Mason	X
Okanogan	X
Pacific	X
Pend Oreille	X
Pierce	CEZ + County
San Juan	X
Skagit	X
Skamania	X
Snohomish	
Spokane	CEZ + County
Stevens	X
Thurston	
Wahkiakum	X
Walla Walla	X
Whatcom	X
Whitman	X
Yakima	X

REQUIREMENTS/QUALIFICATIONS

The business must be located in a rural county or a county containing a CEZ.

The business must be engaged in manufacturing, computer programming, the production of computer software, or other computer-related services, or the activities performed by research and development laboratories and commercial testing laboratories.

The business must invest in facility construction, expansion, or machinery and equipment acquisition. The machinery and equipment must be new to the business or the state and must be integral and necessary to the operation of the eligible business activity. Used machinery qualifies. A new building is not required.

The cost of the expansion or modernization of an existing facility must increase floor space or production capacity.

A lessor or owner of the qualified building can be eligible for a deferral when:

- ◆ The underlying ownership of the buildings, machinery, and equipment vests exclusively in the same person; **or**
- ◆ the lessor by written contract agrees to pass the full amount of the economic benefit of the deferral to the lessee and written documentation of any type is maintained to show this has taken place; **and**
- ◆ the lessee that receives the economic benefit of the deferral agrees in writing with the Department of Revenue to complete the annual survey.

All costs of the investment project, including labor and services performed in the planning, installation and construction of the project, are used to determine the eligible portion for deferral. If the facility is used partly for manufacturing and partly for other purposes, the tax deferral shall be determined by apportioning the costs of construction.

Cogeneration facilities that are part of a manufacturing facility qualify on the portion that is used to generate power for on-site consumption.

EMPLOYMENT REQUIREMENTS

Employment requirements for businesses locating in a CEZ, or a county containing a CEZ are:

- ◆ At least one qualified employment position must be created for every \$750,000 of investment on which a deferral is requested.
- ◆ The new qualified employment positions created must be filled by persons who, at the time of hiring, are residents of the CEZ within the county where the investment project is located. Application for the deferral must be made to the Department **prior** to hiring the CEZ employee.
"Qualified employment position" means a permanent full-time employee employed by a qualifying business during a period of 12 consecutive months. The term "full-time" means at least 35 hours a week, 455 hours a quarter, or 1,820 hours a year.
- ◆ By the end of the second calendar year following the year in which the project is certified as operationally complete, the required employment positions must have been hired and retained for 12 consecutive months or all deferred taxes are immediately due.

APPLICATION

An application must be filed with the Department of Revenue PRIOR to initiation of construction or taking possession of machinery or equipment. Once an application is filed, construction or possession of machinery or equipment may begin. The granting or denial of the application can take up to 60 days.

Copies of the Distressed Area Application for Sales and Use Tax and the Distressed Area Application for Sales and Use Tax Deferral for Lessor are included in this publication. Additional applications may be obtained by contacting the Telephone Information Center at 1-800-647-7706 (TTY 1-800-451-7985). Applications can be faxed by calling the Fast Fax system at (360) 786-6116 and requesting code number 811002 or code number 811008 for the Lessor

application or they can be downloaded from our web site at <http://dor.wa.gov>.

The Department of Revenue must approve or deny applications within 60 days. If approved, a Tax Deferral Certificate is issued to the business to provide to vendors and contractors at the time of purchase. If denied, the business may appeal the decision to the Department's Appeals Division.

USE OF DEFERRAL CERTIFICATE

The deferral certificate allows vendors and contractors to sell to approved businesses without charging retail sales tax. Sales and use tax may be deferred on three kinds of expenditures:

1. Qualified buildings;
2. Qualified machinery and equipment; and
3. Labor and services rendered in the planning, installation and construction of the project.

The purpose of the Rural County Deferral program is to relieve qualified firms, undertaking qualified investment projects in eligible areas, of the obligation to pay tax on the retail construction services. However, it is not a comprehensive sale and use tax exemption. The deferral does not extend to prime construction contractors or subcontractors. It does not relieve contractors or subcontractors of their obligation to pay tax on the purchase or rental of tools, equipment, and supplies that are not incorporated into the final project, even though the ultimate cost of the tax is passed on to the person making the investment.

REQUIRED ANNUAL SURVEY

An annual survey must be completed by each recipient of a deferral, including a lessee who received the benefit through a lessor. **The survey must be received by March 31** of the year following the calendar year in which the investment project is certified by the Department as having been operationally complete and the seven succeeding calendar years. If a business fails to complete a survey by the due date, 12.5 percent of the deferral tax shall be immediately due.

The survey shall include:

- ◆ the amount of tax deferred.
- ◆ the number of new products or research projects by general classification.
- ◆ the number of trademarks, patents, and copyrights associated with activities at the investment project.

The survey shall also include the following information for Washington employment positions:

- ◆ The number of total employment positions
- ◆ Full-time, part-time, and temporary employment positions as a percent of total employment
- ◆ The number of employment positions according to the following wage bands:
 - less than \$30,000
 - \$30,000 - \$59,000
 - \$60,000 or greater(A wage band containing fewer than three individuals may be combined with another wage band.)
- ◆ The number of employment positions that have employer-provided medical, dental, and retirement benefits, by each of the wage bands

The amount of tax deferral is public information. All other information collected on the survey is not disclosable to the public.

AUDIT OF THE PROJECT

When your application is approved, a deferral certificate will be issued using the estimates from your application. Upon completion of the project, an auditor will verify that you are performing qualified activities at this facility. They will also verify that the approved percentage of your structure and 100 percent of the machinery and equipment are eligible for deferral. The auditor may adjust the allowable deferral based on his or her findings.

To minimize inconvenience and the time it takes to complete an audit, please have the following records for the audit period available for your meeting with the auditor:

- ◆ Purchase invoices (i.e., accounts payable, receipts)
- ◆ Supporting documentation for the construction, such as construction contracts
- ◆ Original Sales and Use Tax Deferral Certificate

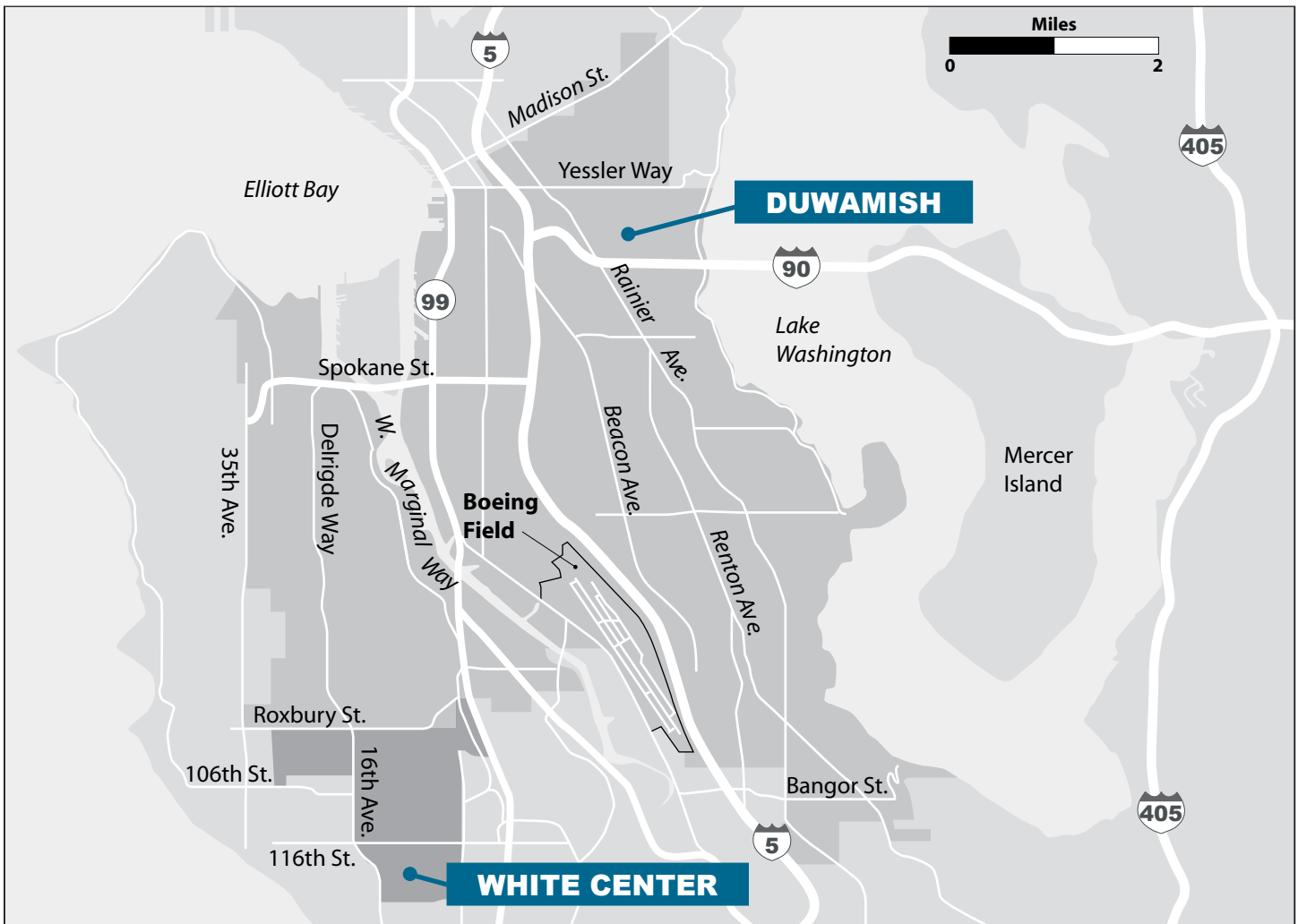
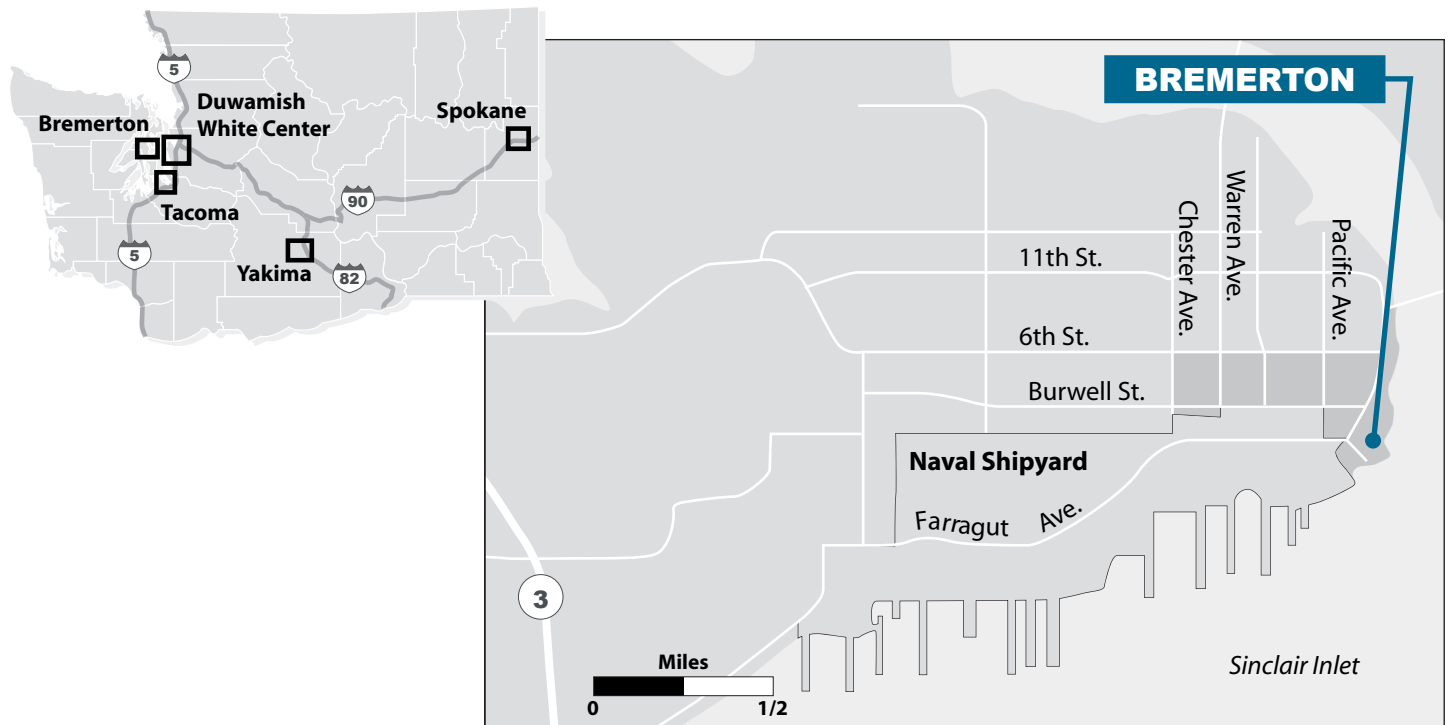
Although most audits can be completed with the above records, additional documents may be required during the audit.

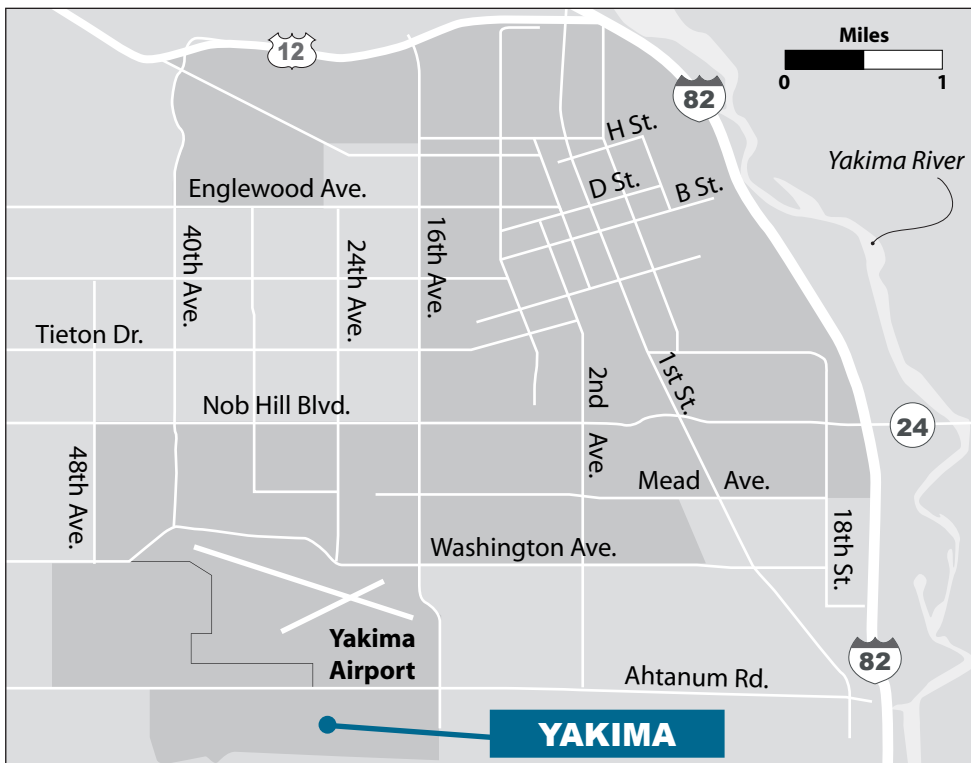
LAWS AND RULES

- ◆ Chapter 82.60 Revised Code of Washington (RCW) — Tax Deferrals for Investment Projects in Distressed Areas
- ◆ Washington Administrative Code (WAC) 458-20-24001 — Sales and use tax deferral — Manufacturing and research/development facilities in distressed areas

The Department of Revenue will, upon request, provide copies of the laws and administrative rules.

Community Empowerment Zones





Community Empowerment Zones (continued)





**RURAL COUNTY APPLICATION FOR LESSOR
FOR SALES AND USE TAX DEFERRAL
82.60 RCW**

Name, Address, and Phone Number of Business

Telephone No. ()

Name, Address, and Phone Number of Contact Person

(All correspondence will be directed to this person)

Telephone No. ()

Department of Revenue Tax Reporting Number

- -

Check One:

Lessee's Business is New ☐

Lessee's Business is Expanding ☐

Location of Investment Project

Check One:

Rural County ☐

Community Empowerment Zone ☐

County _____

Address _____
Street Address

City, State and Zip Code

General Instructions

Filing: This application must be mailed or faxed to the Washington State Department of Revenue prior to initiation of construction and/or taking possession of machinery and equipment within Washington State. "Initiation of Construction" is defined for purposes of this deferral program as the date on which excavation of the footprint or other similar work is started.

Eligible Areas: Eligible areas include (1) rural counties with fewer than one hundred persons per square mile, (2) counties smaller than 225 square miles and (3) designated community empowerment zones or counties containing such a community empowerment zone. **Note: The list of eligible areas is revised annually effective July 1 through June 30.** Businesses making investment decisions should be aware that a specific area may not be on the list every year. For a current county listing please contact the Department of Revenue.

Eligible Investment Projects: Manufacturing or research and development businesses may apply for the deferral if: (1) they are locating in one of the eligible counties or areas, and (2) they will be performing manufacturing or research and development at the site for which the deferral is requested.

Qualified Activity includes manufacturing and research and development. Manufacturing includes computer programming and other computer-related services, and activities performed by R&D and commercial testing laboratories.

Qualified Building includes structures, expansion, and renovation of existing structures. This includes materials and labor and services (including labor and services rendered in the planning and installation).

Qualified Machinery and Equipment includes machinery and equipment to be used as an integral and necessary part of the manufacturing or research and development operations.

Employment Requirements: Businesses that locate in a designated community empowerment zone or a county containing such a community empowerment zone must meet additional employment requirements in order to qualify for the deferral.

Use Requirements: All businesses must maintain a qualified manufacturing activity at the site of the investment project for the year in which the investment project is certified operationally complete plus seven additional years. An annual employee survey due March 31 is also required for every year in the eight-year period.

Waiver of Taxes: If all program requirements have been met, the deferred sales/use tax is waived by the Department of Revenue.

Mail or Fax To:

Department of Revenue
Special Programs Division
PO Box 47477
Olympia, WA 98504-7477
FAX: (360) 586-2163

Lessee information

1. Name of Lessee: _____
2. Mailing Address: _____
3. Contact Person: _____
4. Phone Number: _____
5. Department of Revenue Tax Reporting Account Number: _____
6. Do the lessee and lessor have 100% same ownership?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>
7. If the answer to question 6 is "Yes", please provide documentation to substantiate the relationship.
8. If the answer to question 6 is "No", has the lessor agreed by written contract to pass the economic benefit of the deferral to the lessee? ☐ ☐
9. If the answer to question 8 is "Yes", is the economic benefit of the deferral passed to the lessee no less than the amount of the tax deferred by the lessor and evidenced by written documentation of the type of payment, credit, or other financial arrangement between the lessor or owner of the qualified building and the lessee AND has the lessee signed the statement below agreeing to complete the annual survey required by RCW 82.63.020? ☐ ☐
Please have the lessee sign the following statement. Failure to do so will prevent approval of the application.
I agree to file an annual survey with the Department of Revenue each March 31st for eight years, beginning with the first calendar year after the calendar year in which the investment project is certified by the department as operationally complete.
Name _____
Title _____
Date _____
(Please attach a completed Lessee's Application, if applicable, a copy of the lease agreement and other written documentation in support of your answers to question 8 and 9, if applicable)

Estimated Investment Project Costs

Please include only those costs that will be paid for by the applicant.

10. Structure:

Date construction/expansion to start _____

Construction of new structure(s) \$ _____

Leasehold improvements paid for by applicant \$ _____

Expansion or renovation to expand floor space or production capacity \$ _____

Construction of cogeneration facility \$ _____

Total Structure Costs \$ _____

(continued in next column)

11. Machinery & Equipment:

Date equipment is to be installed \$ _____

Purchase Price \$ _____

Lease Contract Price \$ _____

Fair market value of previously owned machinery and equipment that is new to the State of Washington \$ _____

Total Machinery & Equipment Costs \$ _____

12. Total Costs \$ _____**13. Estimated Completion Date:** _____ / _____ / _____**Business Activity to be Conducted at this Facility**

If additional space is needed to answer questions 14 and 15, please attach additional pages.

14. Describe the nature of lessee's manufacturing activity at this facility: _____

_____**15. Describe the nature of lessee's research and development activities at this facility, if applicable:** _____

_____**Apportionment of Structure**

If the facility is used partly for manufacturing and partly for other purposes, the applicable tax deferral shall be determined by apportioning the costs of construction.

16. Percentage of facility devoted to:

Accounting/Payroll	_____ %
Administration	_____ %
Cafeteria	_____ %
Common Areas	_____ %
Conference & Training Rooms	_____ %
Customer Service	_____ %
Manufacturing	_____ %
Plant offices used by direct line supervisors or other managers who oversee the manufacturing process	_____ %
Reception Area	_____ %
Research & Development	_____ %
Sales & Marketing	_____ %
Warehouse	_____ %
Other (please describe)	_____ %

Total 100 %

17. Percentage of cogeneration energy produced and devoted to internal use, if applicable:

Manufacturing	_____ %
Research & Development	_____ %
Other (please describe)	_____ %
Total	<div style="border: 1px solid black; padding: 2px; display: inline-block;">100 %</div>

If the manufacturing or research and development activity is not maintained, all or a portion of the deferred taxes outstanding for this investment will be immediately due. The department will assess interest at the rate provided for delinquent excise taxes, but not penalties, retroactively to the date of the deferral.

Audit Records Location

If your application is approved, a deferral certificate will be issued using the estimates from your application. Upon completion of the project, an auditor will verify that you are performing qualified activities at this facility. They will also verify that the approved percentage of your structure and 100% of the machinery and equipment are eligible for the deferral. The auditor may adjust the allowable deferral based on his or her findings.

To minimize inconvenience and the time it takes to complete an audit, please have the following records for the audit period available for your meeting with the auditor:

- Purchase invoices (i.e., accounts payable, receipts)
- Supporting documentation for the construction, such as construction contracts
- Original Sales and Use Tax Deferral Certificate

Although most audits can be completed with the above records, additional documents may be required during the audit.

Please complete the following information about the contact person and audit records location if this information is currently available:

23. Contact person:

24. Phone number of contact person:

25. Location of audit records

Employment Information

18. Lessee's Average Number of Full Time Equivalents (FTEs) for Previous Calendar Year.
(1820 annualized hours worked = 1 FTE):

Lessee's Entire Business: _____
At This Facility: _____

19. Estimated Number of New FTEs as a result of this project: _____

If your investment project is located in a rural county, please skip question 19.

20. If your investment project is located in a community empowerment zone (CEZ) or a county containing a CEZ, the lessee must hire a least one qualified employment position for each \$750,000 of investment on which a deferral is approved. The persons must be hired after the date the application is filed with the department. Each qualified employment position must be filled by persons who at the time of hire are residents of the CEZ. If, by the end of the second calendar year following the year in which the project is certified as operationally complete, the lessee has not hired and retained for twelve calendar months the required number of qualified employment positions, all deferred taxes are immediately due.

Estimated number of qualified full-time positions that will be filled by residents of the CEZ: _____
Name of CEZ: _____

Use of Facility

All businesses must maintain a qualified activity at the site of the investment project for the year in which the investment project is certified as operationally complete, plus seven additional years.

Yes No

21. Does the lessee plan to operate this investment project in a qualified manner for 8 years from the time the project is complete? ☐ ☐

22. If the answer to question 20 is "No", how long does the lessee plan to operate this investment project with qualified use?

(continued in next column)

Applicant's Signature

Date

Title

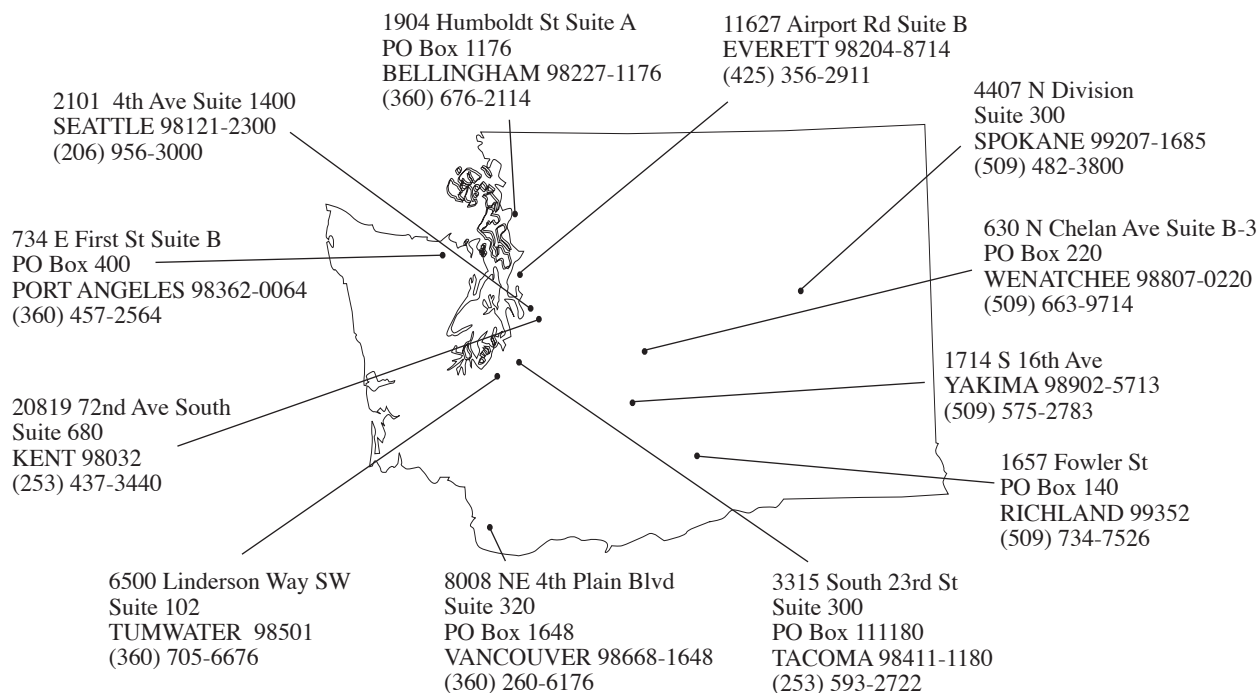
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Department of Revenue Taxpayer Assistance



<http://dor.wa.gov>

Local Office Locations



Telephone Information Center 1-800-647-7706

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